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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 002166

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E.O. 12958: DECL: 09/23/2018

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SUBJECT: LIVNI BEGINS WORK TOWARD BUILDING A NEW COALITION

Classified By: Political Counselor Marc J. Sievers. Reason 1.4 (B/D)

1. (SBU) Summary: President Shimon Peres gave FM Tzipi Livni the nod to try to form a new coalition from the existing Knesset on the evening of September 22. She must do so no later than November 4 or early elections must be held within 90 days. Negative media coverage of a meeting between Labor and Likud leaders may ultimately facilitate her efforts, as neither Ehud Barak nor Binyamin Netanyahu appear ready to join forces against Livni at this juncture. With Kadima steadying its keel following the September 17 primary and several smaller parties (the two pensioner factions, Meretz, and possibly United Torah Judaism) ready to sign aboard, the main challenges for Livni appear to be managing Barak and negotiating an acceptable package of incentives for Shas to remain in the coalition. Livni held meetings with Shas Party leader Eli Yishai on September 23 and plans to meet Barak as well. End Summary.

Double Negatives: Barak and Bibi

2. (C) When Minister of Defense Ehud Barak and Opposition Leader Binyamin Netanyahu attract media attention, it is often negative. The September 20 tete-a-tete meeting between the two former prime ministers that followed FM Tzipi Livni's razor-thin Kadima Party primary victory struck several discordant messages. First, Barak appeared to be conspiring with the opposition before even meeting with Kadima, the party that Barak had, just three months ago, called on to change its leadership in the interest of stability and the state. Barak, who one Laborite said is stricken with "social autism," failed to communicate his strategy to his lieutenants or the general public, leaving most Labor MK's scratching their heads or demanding explanations. Finally, Netanyahu's reiterated refusal to consider joining a national unity government without general elections remains at odds with the impassioned urgency that he uses to describe the Iranian nuclear threat and the public's desire for politicians to join forces to confront it.

3. (C) One Labor aide dismissed the media's accusations that Netanyahu and Barak are male chauvinists, saying that the two leaders are genuinely shocked and, like Mofaz, unable to come to grips with Livni's rapid rise to power. This explained, in his view, Barak's behavior on the margins of the September 21 cabinet meeting, where Barak was overheard shouting on the phone that the Labor Party must put forward his name as the person best able to form a government following Olmert's resignation. That he is ineligible for this role did not matter to Barak, who reportedly blustered that the law mandating that the PM be a member of the Knesset should be changed. A journalist close to Labor MK Shelly Yacimovich, who has been the most vocal Labor champion of early elections, provided a more political explanation for Barak's behavior: She has argued in Labor circles that the only means for Labor to return to power was from the opposition, not as number two to Livni. The weakness of the Yacimovich argument is that the Labor Party lacks unity, vision, organizational structure, and financing for an early election, according to this journalist. MK Nadia Helou told poloff September 23 that she and many other Labor Party members would continue to object to early elections.

4. (U) As of September 23, Israel radio reported that Livni and Yishai (Shas) met and agreed to name two teams to form a committee to examine Shas demands regarding socio-economic issues. Livni also plans to meet Barak again this evening. Labor sources are reporting that Barak may in fact be interested in joining a new coalition, and that reported redlines concerning Labor demands about the removal of Justice Minister Friedmann may in fact be limited to preserving the powers of the Supreme Court.

15. (C) The Kadima faction leader, MK Yoel Hasson, told poloff September 23 that 28 of the 29 MK's in the Kadima Party supported Livni's efforts to form a new government from the existing Kneset. Only the right-wing (settler) MK Ze'ev Elki continues to challenge the results of the Kadim primary. Many anticipate that Mofaz, who surprsingly "withdrew" from politics for a "break" onSeptember 18, would return sooner than later. Mofz has put forward a number of transportation bills for cabinet consideration on September 28, accoding to a ministerial aide who interpreted the mve as an indicator of Mofaz'

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eventual reemergence. The aide expressed optimism that Kadima would be able to put together a new coalition around the original guidelines of the 2006 coalition, and that a way forward with Labor and Shas would be found. Hasson noted that Kadima had weathered many challenges, and was now, under Livni, well-positioned for the future -- even if early elections are in the cards, an assessment that Kadima officials are disseminating widely.

16. (U) After several days of gloomy forecasts, politicians in other parties (including in the opposition party, Yisrael Beiteinu) now tend to believe that a new coalition deal is within Livni's grasp. An aide to Labor MK Ayalon told poloff that Shas MK Eli Yishai's opening price -- more child allowances for large families, more money for Shas schools, and no negotiations over Jerusalem -- would be whittled back to positions acceptable to Shas and Kadima. The views of Shas spiritual leader Ovadia Yossef will be determinative. The Barak-Livni meeting this evening may shed light on the direction Labor is heading and Barak's willingness to work as her partner.

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